

Message Text

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ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 SPC-03 SAM-01 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

INT-08 FEA-02 NEA-11 CIAE-00 COME-00 FRB-02 INR-10

NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 DODE-00 PM-07

H-03 L-03 PA-04 PRS-01 USIA-15 DRC-01 /212 W

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R 301820Z JAN 74

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC6360

INFO AMEMBASSY BONN

AMEMBASSY COPENHAGEN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION GENEVA

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UNCLAS SECTION 1 OF 2 EC BRUSSELS 0616

E.O. 11652: NA

TAGS: ENRG, EMIN,EEC

SUBJECT: ENERGY: STATEMENT OF THE COAL SITUATION IN
THE COMMUNITY BY EC COMMISSION VICE PRESIDENT
HENRI SIMONTE, C-ER 4-57785

REF: (A) EC BRUSSELS 582

(B) STATE 4413

1. BEGIN SUMMARY OF CABLE: SPEAKING BEFORE THE
CONSULTATIVE COMMITTEE OF THE EUROPEAN COAL AND STEEL
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COMMUNITY IN LUXEMBOURG ON JANUARY 28, EC COMMISSION VICE

PRESIDENT HENRI SIMONET OUTLINED EC COMMISSION THINKING ON THE COAL SITUATION IN THE EUROPEAN COMMUNITY. SIMONET'S STATEMENT COMPLEMENTS REFTEL A. SIMONET IS THE COMMISSIONER RESPONSIBLE FOR ENERGY. THERE FOLLOWS A SUMMARY OF SIMONET'S STATEMENT WHICH IN ESSENCE CONCLUDES THAT STEAM COAL HAS A GROWING ROLE TO PLAY IN ELECTRICITY GENERATION IN THE MEDIUM TERM BUT THE COMMUNITY'S ABILITY TO MEET THE INCREASED DEMAND IS LIMITED. THOUGH HE SUGGESTS POLICY MEASURES FOR THE EUROPEAN COAL INDUSTRY, HE ADMITS THEY ARE ANTICIPATORY OF COMMISSION PROPOSALS EXPECTED AT THE COMPLETION OF THE COMMISSION'S COAL STUDY IN JUNE, (SEE REFTEL A). (COPY OF STATEMENT BEING POUCHED TO UER/RPE ATT. MEIMA). END SUMMARY OF CABLE.

BEGIN SUMMARY OF SPEECH.

2. THE MARKET FOR STEAM COAL: IN THE LONG RUN,(AFTER 1980) NUCLEAR ENERGY WILL BE THE MAJOR SOURCE OF ELECTRIC POWER GENERATION, BUT IN THE MEDIUM TERM COAL WILL ESTABLISH THE REFERENCE PRICE FOR FUELS. COAL PRICES ARE LIKELY TO BE HIGH ENOUGH TO GUARANTEE SUFFICIENT SUPPLY. IT WOULD BE PREFERABLE IF ALL NEW HIGH CAPACITY POWER STATIONS DUE TO GO INTO SERVICE AFTER 1980 WOULD BE NUCLEAR,BUT WHERE THIS OBJECTIVE CANNOT BE ATTAINED, THE REMAINING PLANTS SHOULD BE COAL-FIRED STATIONS. COAL'S ROLE IN GENERAL INDUSTRY AND HOME HEATING IS LESS CLEAR.

3. THE MARKET FOR COKING COAL: PROJECTIONS FOR THE COMMUNITY STEEL INDUSTRY'S COKING COAL REQUIREMENTS WILL ONLY INCREASE SLIGHTLY EVEN IF COKE REPLACES FUEL OIL IN BLAST FURNACES.

4. OTHER MARKETS: ALTHOUGH COAL CAN FIND NEW MARKETS IF IT IS TURNED INTO GAS OR LIQUID, IT IS TOO EARLY TO TELL IF CURRENT RESEARCH WILL MAKE THIS TECHNOLOGICALLY AND ECONOMICALLY FEASIBLE.

5. THE SUPPLY OF COAL - COMMUNITY COAL: THE COMMUNITY COAL INDUSTRY'S COMPETITIVE POSITION HAS DETERIORATED OVER THE PAST YEARS IN RELATION TO FUEL OIL AND IMPORTED COAL. PRODUCTIVITY HAS NOT KEPT UP WITH RISING COSTS. HOWEVER,
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WITH THE RISE IN THE PRICE OF ENERGY, THE COMMUNITY COAL INDUSTRY SHOULD COVER MOST OF ITS COSTS. NONE THE LESS, INCREASES IN COMMUNITY COAL PRODUCTION WILL BE VERY LIMITED,EVEN IN THE LONG TERM. THE MAINTENANCE OF THE 1973/74 LEVEL OF PRODUCTION SHOULD BE CONSIDERED THE BEST THE COMMUNITY CAN DO FOR THE FOLLOWING REASONS:

- A) IN 1974 THE LAST DUTCH MINES WILL CEASE OPERATING.
- B) OTHER MEMBER STATES WILL CLOSE A WHOLE SERIES OF

EXHAUSTED AND UNECONOMIC MINES.

C) THE CAPACITY THAT WILL BE LOST CAN JUST ABOUT BE COMPENSATED BY INCREASING PRODUCTION IN EXISTING MINES. TO INCREASE PRUDCTION IN THE LONG RUN, NEW MINES WOULD HAVE TO BE DEVELOPED. THIS TAKES A GREAT DEAL OF TIME AND ENORMOUS INVESTMENTS, WHICH WILL ONLY BE UNDERTAKEN IF THE PROFITABILITY OF THE MINES IS ASSURED FOR A LONG PERIOD.

6. COAL SUPPLY - IMPORTED COAL: THE COMMUNITY WILL HAVE TI IMPORT COAL BUT THE WORLD MARKET POSES PROBLEMS:

A) NEW COAL PRODUCTION TAKES TIME, I.E. DEVELOPMENT OF NEW MINES, RAILROAD CAPACITY, PORT FACILITIES, ETC.

B) JAPAN WILL COMPETE ACTIVELY FOR COAL, AND THE US WILL SATISFY ITS OWN REQUIREMENTS BEFORE INCREASING EXPORTS.

C) COAL FOR POWER PLANTS MUST BE LOW IN SULFUR, BUT LOW SULFUR COAL IS SCARCE.

D) IMPORTED COAL, ALTHOUGH OF LOWER COST THAN COMMUNITY COAL, WILL STILL BE EXPENSIVE AND CREATE BALANCE OF PAYMENTS PROBLEMS FOR EUROPE.

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7. THE LINES OF ACTION FOR THE ELABORATION OF A COMMUNITY
COAL POLICY:

A) UNTIL THE END OF THE 1980S, COAL WILL HAVE TO COVER AN
INCREASING PROPORTION OF THE WORLD'S DEMAND FOR ENERGY.
THEREFORE, THE COAL PRODUCTION PLANS THAT HAVE BEEN
ESTABLISHED BY THE MEMBER STATES MUST BE RE-EXAMINED.
AN IMMEDIATE EFFORT MUST BE MADE TO COMPENSATE FOR EXPECTED
MINE CLOSING BY INCREASING PRODUCTION AT EXISTING FACILITIES.

B) THE REORIENTATION OF THE COAL INDUSTRY FROM ITS HEAVILY
SUBSIDIZED POSITION WILL REQUIRE INVESTMENTS COMPLETELY
DIFFERENT FROM THOSE IN THE PAST. THE PRICE OF COAL SHOULD
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BE A FREE MARKET PRICE. THIS WILL MAKE IT PROFITABLE TO
INVEST IN COAL MINES. HOWEVER, WHERE NECESSARY INVESTMENT AIDS
COULD ALSO BE CONSIDERED.

C) WORKING CONDITIONS MUST BE IMPROVED FOR MINERS AND
THE PROFESSION MADE MORE ATTRACTIVE. EMPLOYMENT IN THE
MINES MUST BE PROTECTED FROM SHORT TERM FLUCTUATIONS.

D) COAL IMPORTING POLICY MUST BE A PART OF THE COMMUNITY'S
GENERAL COMMERCIAL POLICY. IT SHOULD BE SHELTERED FROM
INTERFERENCE BASED ON SHORT TERM CONSIDERATIONS THAT WOULD
PREVENT THE ESTABLISHMENT OF LONG TERM COMMERCIAL
RELATIONS. (COMMENT: WE READ THIS AS ENCOURAGING LONG
TERM COAL SUPPLY CONTRACTS). EXISTING RESTRICTIONS SHOULD
BE REMOVED TO ASSURE A GREATER DIVERSITY OF SOURCES OF
SUPPLY.

E) RESEARCH IS NEEDED IN COAL MINING, LIQUIFICATION AND
GASIFICATION TECHNIQUES, AND WAYS OF FINANCING INDUSTRIAL
PILOT PROJECTS SHOULD BE STUDIED. END SUMMARY OF SPEECH.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COAL, IMPORTS, EXPORTS, STEEL, SUPPLIES, COMMITTEE MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ECBRU00616
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t1974016/aaaaaflb.tel
Line Count: 212
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: (A) EC BRUSSELS 582
Review Action: RELEASED, APPROVED
Review Authority: kellerpr
Review Comment: n/a
Review Content Flags:
Review Date: 22 FEB 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 FEB 2002 by elbezefj>; APPROVED <11 APR 2002 by kellerpr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ENERGY: STATEMENT OF THE COAL SITUATION IN THE COMMUNITY BY EC COMMISSION VICE PRESIDENT
TAGS: ENRG, EMIN, EEC, (SIMONET, HENRI)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005